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1993 ANNUAL REPORT

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Montana Lottery

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GOVERNOR'S MESSAGE

Voters in Montana approved the state lottery by a wide margin in November 1986, and the first lottery tickets were sold seven months later. Revenue reached $25.6 million in the first thirteen months of the Lottery's operation and $8.3 million was raised for the state.

Six years later, the Montana Lottery continues its success as a self-sustaining, multi-million dollar operation, generating important revenue for the State of Montana. For the second consecutive year, the Lottery has exceeded its goal of maximizing revenues. This year, revenue of $36.9 million set a new record for the Montana Lottery.

To date, the Lottery has generated over $33 million for Montana's elementary and secondary public schools and nearly $900,000 for juvenile detention centers across the state.

Other winners this year include the Lottery's players and retailers. Lucky players won more than $17.7 million in prizes and retailers earned over $2 million by selling Lottery tickets.

The Montana Lottery goes to great lengths to safeguard its reputation as a professional and well-managed organization and to maintain the highest level of integrity.

Generating unparalleled lottery sales and unprecedented profits, it has been a winning year for education, players, and Lottery retailers. And, a winning year for the entire State of Montana.

Marc Racicot

Marc Racicot
Governor

LOTTERY COMMISSION

The Montana Lottery surpassed its expectations in fiscal year '93 when revenue reached a record level of $36.9 million, a 31.6 percent increase over last year. The Lottery broke yet another record when it transferred $8.9 million to Montana's public schools and the Board of Crime Control, a 59 percent increase over fiscol year '92.

When compared with other lotteries, the Montana Lottery ranked 3rd in the nation for percentage increase in profits, and 5th for percentage increase in revenues.

While record growth, prize payments and retail commissions represent the hallmarks of fiscal responsibility, the real significance of the past year's performance lies with record profits for education and juvenile detention centers in Montana.

On behalf of the Montana Lottery Commissioners, I would like to thank Governor Racicot and all the legislators for their continued support of the Lottery's efforts. This type of strong leadership aids the Lottery in achieving its mission of maximizing revenues for the State of Montana.

Becky Erickson

Becky Erickson
Chairperson

L to R, back row: Cliff Brophy, Dwaine Iverson
front row: Dovid Kosten, Becky Erickson (Chairperson)
not pictured. Lorry O'Toole

BANNER YEAR

Adhering to its mission, the Montana Lottery continues to increase revenue by offering players new and exciting games. In the past six years, the Lottery has tripled its product mix while holding down expenses. The Lottery continued to streamline its operation, controlling expenses, eliminating waste, and using all of its resources to their fullest. As a result, it has decreased operating costs from nearly 14 percent of revenue six years ago to just over 8 percent in fiscal year '93.

The Montana Lottery plans to continue its efforts in maintaining the key ingredients that have contributed toward the year's successes...a dedicated staff and a network of high performance retailers working together to attract and maintain a solid player base.

Entering its seventh year of operation, the Lottery is committed to providing entertaining and valuable lottery games to the public and, by doing so, raising revenues for public education and juvenile detention centers.

We are proud of our contributions. Each day, we rededicate ourselves to our mission of providing essential revenue to support our most valuable resource - our children.

Charmaine Murphy
Director

"Maximize revenues as well as transfers and ensure that policies and rules adopted further revenue maximization."

-Mission Statement

LOTTERY OPERATIONS AND FUNDING

Lottery operations are funded through the sale of SCRATCH and Lotto tickets. Over 750 retailers across the state are licensed to sell SCRATCH tickets, and 326 of these retailers also sell Lotto tickets.

Revenue generated through the sale of Lottery tickets is used to fund prizes, pay retailer commissions, cover ticket costs and operating expenses. Net revenues are transferred to the Office of Public Instruction for School Equalization Aid and the Board of Crime Control for juvenile detention centers across the state. Section 23-7-402, MCA, specifies how each dollar spent on lottery tickets is to be distributed. The chart gives an overview of Revenues, Expenses, and Transfers.

Overview of Revenues, Expenses & Transfers

	FY 87-88	FY 89	FY 90	FY 91	FY 92	FY 93
Revenues	$25.6	$11.6	$21.5	$23.9	$28.0	$36 9
Prizes	$11.5	$5.3	$10 2	$11.7	$13 6	$17.7
Commissions	$1.4	$.7	$1.3	$1.3	$1.6	$2.1
Ticket Costs	$ 9	$.6	$2.9	$4 0	$4.2	$5.2
Operations	$3.6	$2.1	$2.9	$2.7	$3.0	$3.0
OPI/School Equalization Account	$8.3	$2 8	$4 2	$4 2	$5.5	$8.1
Board of Crime Control					$.1	$.8

FY = Fiscal Year beginning July 1 through June 30 (All figures in millions of dollars.)

Explanation of Categories

Revenue: Lottery ticket sales, interest earnings on investments and license fees.

Prizes: A minimum of 45 percent of all sales revenue is returned to players in the form of prizes.

Commissions/Bonuses: Lottery retailers earn five cents on each ticket sold. They also have an opportunity to earn additional money through a SCRATCH ticket retailer incentive program. SCRATCH ticket sales over an established base qualify retailers for an incremental bonus of one to five cents.

Ticket Costs: Each SCRATCH ticket costs approximately five cents and each Lotto ticket costs approximately seventeen cents. In November 1989, mid-way through fiscal year 1990, the Lottery introduced its first Lotto game, Lotto*America. Ticket costs increased as a result of offering players Lotto tickets in addition to SCRATCH tickets.

Operations: The Montana Lottery is responsible for the sale and marketing of all Lottery products, security, warehousing, inventory control, and lottery operations which include accounting, fiscal management, and data processing.

OPI/School Equalization Aid: Elementary and secondary public schools across the state receive money each quarter from the sale of Lottery tickets. The money is transferred quarterly to the School Equalization Aid Account and distributed by the Office of Public Instruction (OPI).

Board of Crime Control: In fiscal year '92, the Board of Crime Control started receiving Lottery revenues. The moneys are used to help fund operational costs of Montana's juvenile detention centers.

Juvenile Detention Centers Win

The Lottery Act was amended during the 1991 Legislative Session to include a 1.6 percent transfer of the Lottery's net revenue to the Board of Crime Control beginning July 1, 1991. In fiscal year '93, that figure increased to 9.1 percent of net revenue (not to exceed $1 million per fiscal year).

In the past two years the Lottery has generated approximately $900,000 for Montana's juvenile detention centers. Lottery proceeds are used to cover the operational costs associated with running the centers.

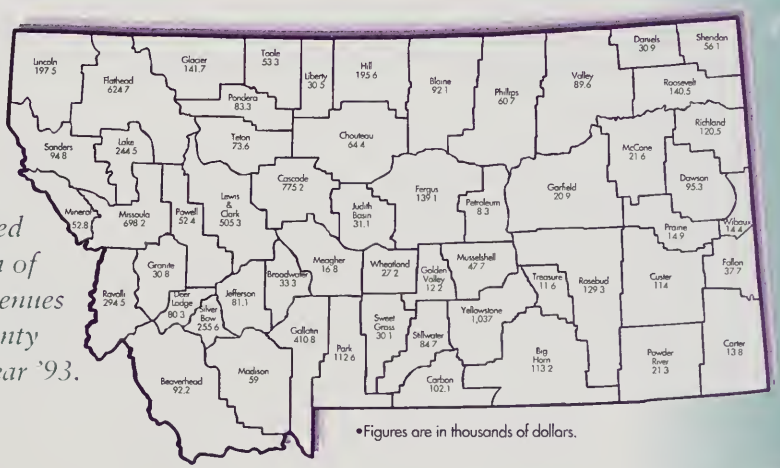
Montana Public Schools Win

Montana Public Schools benefit directly from the sale of Lottery tickets. Approximately twenty-two cents of every dollar spent on a Lottery ticket goes to Montana's public schools.

At the end of each quarter the Lottery transfers 90.9 percent of its net revenues to the School Equalization Aid Account which is distributed to each county by the Office of Public Instruction. During fiscal year '93 the Lottery transferred $8.1 million to the School Equalization Aid for distribution.

To date, the Lottery has generated over $33 million for elementary and secondary schools across the state.

The map illustrates the estimated distribution of Lottery revenues in each county for fiscal year '93.



•Figures are in thousands of dollars.

LOTTERY PRODUCTS

Players Keep on Scratchin'

The Montana Lottery sold its first SCRATCH ticket in June 1987. Today, the Lottery offers its players a variety of SCRATCH tickets plus two Lotto games, MONTANA CA$H and POWERBALL.

SCRATCH games are an important product in Montana. A new SCRATCH game is introduced every six weeks. The Lottery continued its practice of designing and developing SCRATCH games in-house through the use of focus groups with Montana's SCRATCH players. This strategy ensures that the Lottery's SCRATCH games are appealing to its players.

SCRATCH games featuring pickup trucks as the top prize are always favorites with Montanans. The Lottery kicked off fiscal year '93 with "Keep On Truckin'" which featured a 4X4 pickup package worth $26,780.

Nine trucks were given away instantly, and one truck was awarded through a second chance drawing. Players entered the second chance drawing by sending in five nonwinning "Keep on Truckin'" SCRATCH tickets to the Lottery.

The Second Chance Drawing was held October 29, 1992, and Bozeman resident Thomas Devers won the pickup truck package. His entry was selected from over 99,000 entries.

The Montana Lottery's radio campaigns for its SCRATCH games received statewide recognition at the annual Montana Advertising Federation's award banquet. The Lottery won five Addy's for best 30 - and 60 - second radio spots in the State of Montana.

Lotto Games Drive Sales

MONTANA CA$H and POWERBALL drove sales in fiscal year '93. Revenue from the two games helped the Lottery achieve its record year. Sales for these games came in $5 million over projections.

A big hit with Montanans is the Lottery's 5/37 cash game, MONTANA CA$H. MONTANA CA$H was introduced in May of 1991 and has grown in popularity each year. It offers players a minimum jackpot of $20,000 and second- and third-tier prizes of $200 and $5. A second weekly drawing was added in April of 1992. Drawings are held on Wednesday and Saturday evenings.

Sales for MONTANA CA$H surpassed the Lottery's expectations when they reached $9.1 million, a 57.3% increase over fiscal year '92. The Lottery attributes this increase to the addition of a second weekly drawing and increased winner awareness.

On average, the jackpot is won every third draw. In fiscal year '93, forty-two Montanans won jackpots ranging from $20,000 to $172,700 which reinforced the perception of the game's winability. "Many Montanans know someone in the state who has won a MONTANA CA$H jackpot," said Charmaine Murphy, Lottery director. "It makes winning believable which gives them an incentive to play the game."

POWERBALL mania swept the state twice during fiscal year '93, which brought new lotto players to the game and drove sales to record levels. Sales for fiscal year '93 were over $18 million, a 44% increase over last year's sales. Approximately 50 percent of the Lottery's revenue can be attributed to POWERBALL ticket sales.

POWERBALL was undertaken in partnership with thirteen other state lotteries and the District of Columbia. The fifteen-member cooperative offers participating lotteries the benefit of multi-million dollar jackpots combined with lower operating costs. Players have the excitement of playing for large jackpots and the opportunity to win eight other cash prizes ranging from $1 to $100,000.

A successful winner awareness campoign was launched in April '93 featuring Montana's $100,000 POWERBALL winners. The multi-media campaign used television, print, and outdoor billboards to remind players that fifteen Montana POWERBALL players had already won the second-tier prize of $100,000.

Economic Impact on the State

In addition to generating millions of dollars for education and juvenile detention centers, the Lottery's benefits stretch much further.

During fiscal year '93, the Lottery paid out more than $17.7 million in prizes to players which fueled the state's economy through the consumption of goods. Many winners paid off their debts, purchased a new car, bought furniture, or invested their winnings. "For the first time in my life, I have peace of mind from being debt free, " said Vito Misoles, a $20,000 MONTANA CA$H jackpot winner from Butte.

Like any multi-million dollar business, the Lottery creates jobs. The Lottery employs 35 people, the same number of full-time employees it had in 1987 when it started. Additionally, the Lottery's on-line vendor, Automated Wagering International (AWI), a subsidiary of Video Lottery Technologies, is a Montana based employer.

AWI supplies the Lottery with its on-line system necessary for the sale of Lotto tickets.

Lottery retailers also enjoy economic advantages from selling Lottery products. They have earned millions of dollars in commissions and bonuses from ticket sales and have profited from the increased traffic their stores receive as a result of being a Lottery retailer.

LOOKING AHEAD

Lottery Goals for Fiscal Year 1994

- Broaden the player base through research and development, and by offering new and innovative Lottery products.
- Broaden and increase the Lottery's retailer base resulting in the expansion of product availability to the playing public.
- Maximize staff potential and encourage excellence in the workplace.

"The Lottery has reached a new plateau in sales and profits and looks forward to the next fiscal year with optimism." Charmaine Murphy, Director

AUDITOR'S REPORT

Independent Auditor's Report

We have audited the balance sheets of the Montana State Lottery, a component unit of the State of Montana as of June 30, 1993, 1992 and 1991, and the related statements of revenue, expense and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana State Lottery as of June 30, 1993, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

September 21, 1993

DOUGLAS WILSON & COMPANY, P.C.

FINANCIAL STATEMENTS

BALANCE SHEETS AS OF JUNE 30

	1993	1992	1991
CURRENT ASSETS			
Cash and cash equivalents	$3,078,823	$1,447,158	$975,605
Accounts receivable, net of allowance	1,703,655	661,160	602,632
Inventory	125,860	140,671	173,921
Interest receivable	7,385	4,918	-
Intangible assets	8,390	-	-
Prepaid expenses	5,448	1,717	8,088
Employee advances	5,000	5,000	5,000
	4,934,561	2,260,624	1,765,246
FIXED ASSETS			
Computer, furniture and equipment	793,616	706,407	762,715
Computer software	772,665	772,665	840,400
	1,566,281	1,479,072	1,603,115
Less: Accumulated depreciation and amortization	(1,361,318)	(1,247,491)	(1,091,024)
	204,963	231,581	512,091
OTHER ASSETS	589,144	571,823	542,809
Multi-State Lottery receivable			
Advertising license fee, net of accumulated amortization of $30,261 in 1991	-	-	21,863
	$5,728,668	$3,064,028	$2,842,009
TOTAL ASSETS			
CURRENT LIABILITIES	$ -	$ -	$70,033
Long-term debt due within one year	506,150	417,829	340,871
Accounts payable and accruals			
Due to State Superintendent of	2,533,508	1,237,357	1,092,397
Public Instruction, School Equalization Fund	438,737	123,070	97,048
Due to other state agencies	137,521	126,424	99,549
Accrued compensated absences	2,027,326	1,029,071	994,758
Estimated prizes payable	49,347	104,000	19,629
Deferred on-line revenue	34,719	24,917	129,751
Allowance for ticket returns	5,727,308	3,062,668	2,844,036
FUND EQUITY (DEFICIT)	1,360	1,360	-
Contributed capital	-	-	(2,027)
Unreserved retained earnings (deficit)			
	$5,728,668	$3,064,028	$2,842,009
TOTAL LIABILITIES & FUND EQUITY			

See the accompanying notes to the financial statements.

FINANCIAL STATEMENTS

STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN RETAINED EARNINGS FOR YEARS ENDING JUNE 30

	1993	1992	1991
OPERATING GROSS REVENUES			
Instant ticket games	$ 9,106,433	$ 9,248,920	$ 8,170,377
On-line games	27,656,397	18,673,019	15,761,001
Gross ticket revenues	36,762,830	27,921,939	23,931,378
COST OF TICKET REVENUES			
Instant ticket prize expense	4,944,962	5,094,809	4,672,276
On-line ticket prize expense	12,797,555	8,456,198	6,986,546
Retailer commission	2,058,730	1,609,178	1,346,955
Cost of instant tickets sold	418,984	479,346	503,516
On-line vendor fees	4,790,469	3,741,750	3,539,506
Total cost of ticket revenues	25,010,700	19,381,281	17,048,799
Net ticket revenues	11,752,130	8,540,658	6,882,579
License fees	5,650	4,350	4,350
Net operating revenue	11,757,780	8,545,008	6,886,929
OPERATING EXPENSES			
Advertising	695,633	669,472	622,030
Amortization	1,753	120,456	198,341
Bad debt	3,623	4,760	668
Communications	73,131	75,121	73,970
Contractual services	406,248	527,062	368,274
Depreciation	113,853	116,715	119,055
Management service fee	102,712	94,740	78,627
Multi-State operating fees	42,685	44,268	33,807
Personal services	1,186,383	1,114,772	966,940
Repairs and maintenance	82,020	77,085	77,878
Supplies and materials	112,447	48,256	46,326
Utilities and rent	93,745	95,165	96,536
Travel	35,820	40,003	35,054
Other	41,446	20,996	21,245
Total operating expenses	2,991,499	3,048,872	2,738,751
NET OPERATING INCOME BEFORE NON-OPERATING REVENUES, EXPENSES, & TRANSFERS	8,766,281	5,496,136	4,148,178
NON-OPERATING REVENUES (EXPENSES)			
Interest earnings	116,432	95,184	40,371
Gain (loss) on sale of assets	(595)	(6,459)	2,927
Other	-	-	6,953
Interest expense	-	-	(119)
Total non-operating revenues (expenses)	115,837	88,725	50,132
NET OPERATING INCOME BEFORE TRANSFERS	8,882,118	5,584,861	4,198,310
Operating transfers to State Superintendent of Public Instruction, School Equalization Fund	8,073,845	5,493,509	4,200,337
Board of Crime Control	808,273	89,325	-
NET INCOME (LOSS)	-	2,027	(2,027)
Retained earnings, beginning of year	-	(2,027)	-
RETAINED EARNINGS, END OF YEAR	$ -	$ -	(2,027)

See the accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
FOR YEARS ENDING JUNE 30

	1993	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES			
Net operating income before non-operating expense and transfers	$ 8,766,281	$ 5,496,136	$4,148,178
Adjustment to reconcile net operating income to net cash provided by operating activities:			
Amortization and depreciation	115,606	237,172	317,396
Book value of assets disposed	-	-	773
Decrease (increase) in:			
Accounts receivable	(1,042,495)	(58,528)	169,358
Inventory	14,811	33,250	(65,465)
Interest receivable	(2,467)	(4,918)	-
Prepaid expenses	(12,121)	6,371	(6,160)
Employee advances	-	-	940
Multi-State Lottery receivable	(17,321)	(29,014)	(542,809)
Increase (decrease) in:			
Accounts payable & accruals	88,321	76,958	11,345
Due to State Superintendent of Public Instruction, School Equalization Fund	1,296,151	144,960	(427,123)
Due to other State agencies	315,667	26,022	20,618
Accrued compensated absences	11,097	26,875	5,157
Estimated prizes payable	998,255	34,313	299,614
Deferred on-line revenue	(54,653)	84,371	(400)
Allowance for returned tickets	9,802	(104,834)	(18,142)
	10,486,934	5,969,134	3,913,280
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers out to State Superintendent of Public Instruction, School Equalization Fund	(8,073,845)	(5,493,509)	(4,200,337)
Board of Crime Control	(808,273)	(89,325)	-
	(8,882,118)	(5,582,834)	(4,200,337)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payment of long-term debt	-	-	(95,251)
Acquisition of fixed assets and intangible assets	(89,583)	(25,800)	(48,317)
Proceeds from sale of fixed assets	-	15,870	17,790
Interest paid on fixed assets acquisition contract	-	-	(119)
Other	-	-	6,953
	(89,583)	(9,930)	(118,944)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earned on Cash Equivalents	116,432	95,183	40,371
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,631,665	471,553	(365,630)
Cash and Cash Equivalents at Beginning of Year	1,447,158	975,605	1,341,235
CASH AND CASH EQUIVALENTS AT YEAR END	$3,078,823	$ 1,447,158	$ 975,605

See the accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary Of Significont Accounting Policies:

Organization - The Montana State Lottery was created in November 1986 by a referendum vote of the people of Mantana. Section 23-7-101, Montono Code Annatoted (MCA) establishes the provision of the code under which the Montana State Lottery aperotes. The Montana Lottery is operated by o five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the pawer to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size af prizes, conduct lattery drawings, enter inta agreements to offer lottery games with ather lottery states and prepare finoncial reports.

Dispasitian of revenue is o minimum of 45 percent for prizes, o maximum of 10 percent for commissions to sales agents, payment of operating expenses and the remoining revenue to the OPI and the Board af Crime Cantrol.

The State of Mantana pravides certain services to the Lottery covering: central payrall, accounting, self-insurance, communication, motar pool and various ather services. The costs charged to the Lottery for these services were approximately $1,440,000, $1,410,000 and $1,320,000 in fiscal years ending June 30, 1993, 1992 and 1991 respectively

Reporting Entity - The Lottery, a division within the Montana Department af Commerce, is considered a component unit of the oversight unit known as the State of Montano. There are no component units ta be included with the Lottery os o reporting agency.

Basis of Accounting - The Lottery utilizes the accruol basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds accaunt for operations: a) financed and operated similar to privote business enterprises, where the intent af the Legislature is that costs are to be financed or recovered primorily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

Revenue Recognition - Sales of lottery instant tickets ore made to licensed retailers, who in turn sell the tickets to the public. Retailers receive a minimum 5 percent commission. Revenue is recognized when the tickets are delivered to the retailers. Tickets not sold by the retailer may be returned to the Lottery for credit. Sales are reduced for estimated ticket returns.

Sales af on-line lattery tickets, starting in early November 1989, are made by licensed retailers to the public with the use of computerized terminals. Retailers receive a 5 percent commission. Revenue is recognized on drawing dates. Tickets sald in advance for future drawings are recorded as deferred revenue until the ticket becomes valid far a drawing

Prizes - Prize expense is recognized based on the predetermined prize structure for each instant ticket and an-line game. Free tickets are recarded as a reduction in revenue and not as prize expense.

Cash and Cash Equivalents - Cash and cash equivalents consist of interest-bearing deposits with the Montano Board of Investments in the State's short-term investment pool and cash on depasit with the State Treasurer which is part of the State's pooled cash and is not separately identifiable os to specific types of securities These funds are highly liquid and may be drawn on daily. See the statewide audit for the level of risk associated with the cash and cash equivalents. The carrying amount reported in the balonce sheet for cash and cash equivolents approximates their foir values.

Cosh is as follows:

Cosh an deposit with State Treasurer		
June 30, 1993	$	337,668
June 30, 1992	$	29,808
June 30, 1991	$	564,655
Cash on depasit in short-term investment pool		
June 30, 1993	$	2,730,600
June 30, 1992	$	1,407,200
June 30, 1991	$	400,800
Cash in revolving check accaunt		
June 30, 1993	$	10,000
June 30, 1992	$	10,000
June 30, 1991	$	10,000
Deposit in transit		
June 30, 1993	$	405
June 30, 1992	$	0
June 30, 1991	$	0
Petty Cosh		
June 30, 1993	$	150
June 30, 1992	$	150
June 30, 1991	$	150
Tatal		
June 30, 1993	$	3,078,823
June 30, 1992	$	1,447,158
June 30, 1991	$	975,605

Inventory - Inventaries consist af tickets and supplies. Ticket inventory includes lottery instant tickets stored in the warehouse and with marketing representatives. The tickets are carried at cost using the specific identificotion method. Tickets are charged to cost af sales when sold and unsold tickets are charged to cost of sales upon the end or cancellation af a game.

Supply inventory is carried at cost and expensed as used.

Fixed Assets - Fixed assets ore recarded at cost and depreciation or amortizotian is computed using the straight-line basis aver the following estimated useful lives:

Computer	6 years
Software	2-5 years
Vehicles	4 years
Furniture & equipment	6 -10 years

Advertising License Fee - Advertising license fee is recarded at cost and amortization is computed using the stroight-line basis over a three-year estimated useful life. The fee wos fully amartized as af June 30, 1992.

Accounts Receivable - Accounts receivable epresent amounts due the Lottery for purchased tickets. These amaunts are electronically transferred within 28 to 34 days af instant tickets purchosed, and weekly for on-line tickets purchased. The Lottery grants credit to licensed retailers throughout the State of Montono. An allowance for uncollectible acccounts is computed based on histaricol experience. The allowance for doubtful accounts was $4,842, $985 and $0 respectively, at June 30, 1993, 1992 and 1991.

Compensated Absences - State employees earn vacotion leave ranging from 15 to 24 days per year depending an the individual's years of service. Vacotion leave may be accumulated to not exceed 2 times the maximum annual leave. Sick leave is earned at 12 days a year with no maximum accumulation. Upon retirement or termination, an employee is paid 100 percent for unused vacation and 25 percent for unused sick leave.

Joint Venture/Multi-State Lottery Association - In November 1989, the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit af party latteries. Each lattery participating in MUSL is represented on the Board of Directors. The Board's respansibilities ore ta initiate, promulgate, and administer a multi-state lattery game for the mutual benefit of the member lotteries.

As of June 30, 1993, MUSL's unaudited financial informotion is as follows:

Total Assets	$494,301,889
Total Liobilities	$ 494,110,111
Fund Balonce	$ 191,778
Tatal Liobilities and Fund Balance	$494,301,889

Total Revenue	$	1,625,280
Total Expenses	$	1,710,891
Excess (Deficit) of Revenue Over Expenses	$	(85,611)

Intangible Assets - Intangible assets represent the per ticket cost paid to Automated Wagering Inc. for advance on-line ticket sales. These ticket sales, also referred to as Deferred Revenue, represent tickets sold prior to June 30, 1993, for drawings held after June 30, 1993. As of June 30, 1993, these costs total $8,390 or 17 percent of Deferred Revenue ($49,347).

2. Long Term Debt:

Long term debt consists of the following. Installment purchase of Instant Lottery System software payable in monthly payments of $11,672 including no interest through March 1990 and $23,344 including no interest through February 1991.

6/30/91	$	70,033
Less portion due within one year	$	70,033
Long-term portion	$	-

3. Obligation to Transfer Funds to Office of Public Instruction, School Equalization Account:

The remaining portion of gross revenue not used for payment of prizes, commissions, and operating expenses is transferred quarterly from the Lottery to the Office of Public Instruction, School Equalization Account with the exception of transfers to the Board of Crime Control (see note 11). At June 30, 1993, 1992 and 1991 $2,533,508, $1,237,357 and $1,092,392 respectively, were payable to the Office of Public Instruction, School Equalization Account. Operating transfers of $8,073,845, $5,493,509 and $4,200,337 were reported during the fiscal years ended June 30, 1993, 1992 and 1991 respectively.

4. Lease Commitments/Office and Warehouse:

The Lottery has a five-year lease beginning March 28, 1992, for office and warehouse space in Helena, Montana. Lease expense included in the operating expenses is $78,000, $80,400 and $81,600 for the fiscal years ending June 30, 1993, 1992 and 1991 respectively. Minimum future lease payments, under all non-cancellable leases, are $78,000 per year through 1997.

5. Employment Retirement System:

The Lottery and its employees make contributions to the Montana Public Employees Retirement System (PERS) defined benefit plan. The Lottery is required to contribute for full-time employees at the rate of 6.55 percent of annual compensation under state statute. Employees are required to contribute 6.55 percent of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The Montana Public Employees' Retirement System does not segregate financial information for each participating entity.

The total number of Lottery employees covered during the years ended June 30, 1993, 1992 and 1991 was 42, 35 and 36 respectively. The total payroll for the employees was $881,471 in 1993, $856,513 in 1992 and $782,269 in 1991. The Lottery's contributions were $59,847, $56,106 and $50,093 for the years ended June 30, 1993, 1992 and 1991 respectively. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights became vested after 5 years of service.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The Lottery is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total State basis, not agency basis.

The pension benefit obligation at June 30, 1993, for the State system as a whole was $1,405,884,112. The system's net assets available for benefits at cost on June 30, 1993, were $1,107,748,782 leaving an overall unfunded pension benefit obligation of $298,135,330. The Lottery's 1993 contribution represented approximately .01 percent of total June 30, 1993, contributions required of all participating entities. The Lottery is not responsible for any state system unfunded liability.

Ten-year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1993, annual financial report. Only the first two years of the required 3-year trend information is available.

6. Deferred Compensation Plan:

The Lottery's employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractural arrangement with Nationwide Insurance.

7. Contractural Arrangements:

A. Instant Tickets - The Lottery has signed agreements to purchase instant game tickets from Dittler Brothers, Inc., through June 3, 1994, with options for the Lottery to extend for two additional 12-month periods. This contract may be terminated by the Lottery with proper notification.

B. Computer Hardware and Software Maintenance - The Lottery has signed an agreement for computer hardware and software maintenance from Stratus Computer, Inc. for $5,110 per month.

C. On-line Vendor - The Lottery has signed a contract with Automated Wagering International, Inc., a wholly owned corporation of Videa Lottery Technologies, Inc. to provide on-line terminals, central computers, and telecommunication network through November 9, 1994. The contract provides for payments to be based on a percentage of weekly sales.

8. Prize Contingencies:

Big Spin Jackpot - Certain Big Spin prizes awarded are payable to the winners in annual installments of 17 to 20 years, with the first payment being made by the Lottery. The Lottery has entered into agreements with an insurance company under which purchased annuities will provide payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance company will make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of future payments are reflected in the accompanying financial statements. The Lottery would be liable for such future payments in the amount of $3,484,559 if the insurance company was to default on its payments.

9. Multi-State Lottery Receivable:

As a member of the Multi-State Lottery Association (MUSL) and the Lotto*America/Powerball game, the Lottery is required to contribute to a prize reserve fund maintained by MUSL. This fund is to be used only in the

NOTES TO FINANCIAL STATEMENTS

event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund, as well as the interest earned on the Lottery's share of the fund, would be returned to the Lottery upon leaving MUSL (assuming that no unanticipated prize claims have been paid).

The Lottery contributes to the reserve fund through the set-aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve fund accumulated since the start of the Multi-State Lottery. The Lottery made this payment in full as of June 1990, through an additional 2 percent of drawing revenue rather than making a lump sum payment. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game.

The unreserved accounts were created by the MUSL Board in July 1990. The purpose of this account was to record interest earned on the prize reserve fund when the prize reserve fund balance is not below the ceiling amount. The amounts in the unreserved accounts can be used as approved by the Board.

As of June 30, 1993, the MUSL prize reserve fund had a balance of $26,281,598, of which the Montana Lottery's combined reserve and unreserved funds were $589,144

10. Lotto*America Prizes and Investments:

Prizes awarded to Lotto*America grand prize winners are paid in 20 annual installments. The Multi-State Lottery purchases United States Treasury zero coupon bonds to finance the remaining installments of the grand prizes. The bonds are purchased in the name of the Montana State Lottery, but are held at the Multi-State Lottery.

As the bonds mature, the proceeds are forwarded to the Montana State Lottery and distributed to the grand prize winners on the anniversary date of each win.

As of June 30, 1993, Multi-State Lottery holds United States Government zero coupon bonds for the Montana State Lottery with a par value of $54,115,254

The approximate market value of these same bonds as of June 30, 1993, is $30,837,895. The Montana State Lottery has five Lotto*America winners as of June 30, 1993. The combined total of future prize payments owed to the winners as of June 30, 1993, is $54,115,000. The total annual payments due over each of the next five fiscal years is $3,053,000 per year. The present value of the future prize payments approximates the current market value of the bonds held for the Montana State Lottery.

11. Board of Crime Control Transfers:

Beginning July 1, 1992, the Montana State Lottery is required to transfer 9.1 percent of net revenues each quarter to the Board of Crime Control. For fiscal year 1992 the percentage was 1.6. At June 30, 1993 and 1992, $253,630 and $20,120 was payable to the Board of Crime Control. A total of $808,273 and $89,325 was transferred to the Board of Crime Control for fiscal years 1993 and 1992, respectively.

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